

Washington State Tax Structure Study

Committee Meeting Minutes

August 9, 2002

Committee members present: John Beck
Lisa Brown
Neil Bruce
Jack Cairnes
Dick Conway
Bill Gates, Sr.
Lily Kahng
Jim McIntire
Debbe Sanders
Gary Strannigan

Absent: Hugh Spitzer

WELCOME

Bill Gates welcomed the Committee members.

The minutes of the July 12, 2002, Committee meeting were approved as submitted.

PROBLEM RANKING EXERCISE

Lorrie Brown of the Department of Revenue presented the results of the problem ranking exercise. The Committee members were sent a questionnaire that listed all of the problems of our tax system that came out of the Department's analysis and the Committee's discussion of our current tax system. They were asked to list the problems that they felt were the most important to address. The problems chosen by the Committee members were:

1. Washington's mix of taxes causes revenues to increase more than personal income during good economic times and less than personal income in economic downturns.
2. It is politically difficult to build and maintain adequate reserve funds during good economic times.
3. The increasing share of services in consumer spending, along with increased opportunities for making purchases out of state, result in taxable retail sales growing more slowly than the economy as a whole over the long run.
4. Initiatives have impacted long run adequacy.
5. Low profit margin Washington firms tend to suffer a competitive disadvantage because of Washington's taxes compared to their competitors in other states.

6. State and local taxes are more burdensome because the retail sales tax paid by households is not deductible from federal income taxes.
7. Lower income households pay a higher percentage of their income in state and local taxes than do higher income households.
8. There are significant activities that are not subject to taxation such as income of individuals, business inventories, intangible assets, rental of real property, agricultural production, investment income of nonfinancial business, and food for home consumption.
9. B&O tax pyramiding (approximately 2:1) results in non-neutralities between different industries and between vertically integrated and non-integrated firms.
10. Since households pay the retail sales tax on numerous purchases throughout the year, they may be unaware of their total annual tax burden.
11. Individuals can avoid sales tax by shopping in bordering states with lower sales tax rates or by making remote purchases.
12. Washington's tax system is significantly different than that of "typical" states.
13. There is a lot of variation across industries in the effective B&O rate on value-added.

REVIEW STAFF-PREPARED MATERIALS

Department of Revenue staff provided Committee members with Calendar Year 2005 state impacts, advantages, disadvantages, tax principles most advanced, tax principles most eroded, and administrative issues for the various alternatives which had been discussed at previous meetings. They were also given calibration calculations to determine the tax yield for the various alternatives if the tax rates were increased or decreased.

DISCUSSION OF ALTERNATIVES

Committee members discussed the various alternatives.

Bill Gates asked for members who would be willing to meet to prepare alternative packages for the September meeting. Lily, Gary, Lisa or Jim (one will attend), Neil, John, and Debbe volunteered.

NEXT MEETING

The next Committee meeting will be held on Friday, September 13, 2002, from 10:30 a.m. to 2:30 p.m. at the SeaTac DoubleTree Hotel.